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CONCLUSIONS
of the
International Financial Conference
Brussels

with Reference to

PUBLIC FINANCE
CURRENCY AND EXCHANGE
INTERNATIONAL TRADE
INTERNATIONAL CREDITS

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NOTE

FOR consideration by the Assembly of the League of Nations during the meeting now in progress in Geneva, the International Financial Conference at Brussels (which adjourned October 8th), formulated and adopted unanimously a series of Conclusions which are herewith presented in full.

Although fragmentary reports have appeared, this is, so far as is known, the first complete publication in the United States of these Conclusions.

The International Financial Conference was instituted by the League of Nations to examine into and report upon the financial situation of the world and to propose measures for the relief of the international situation as well as for improvement in individual countries. Its resolutions and findings were based upon formal economic and financial statements made by the nations participating in the conference, which included practically all the principal countries of the world with the exception of Russia.

Participating in the conference were many of the leading financial experts and statesmen of European and other countries. Its findings, therefore, represent a weighty consensus of opinion as to those measures necessary for improving the position of Public Finance, Currency and Exchange, International Trade and International Credits. As such these findings as a whole are invaluable as a source of information, and worthy of study by all who realize the transcendent importance of the reconstruction of world trade and finance—an undertaking in the progress and success of which the United States is vitally interested.

HARVEY D. GIBSON,
President.

International Financial Conference

Conclusions of the Commissions

Public Finance

I.

Thirty-nine nations have in turn placed before the International Financial Conference a Statement of their financial position. The examination of these statements brings out the extreme gravity of the general situation of public finance throughout the world, and particularly in Europe.

Their import may be summed up in the statement that three out of every four of the countries represented at this Conference, and eleven out of twelve of the European countries, anticipate a Budget deficit in the present year. Public opinion is largely responsible for this situation.

The close connection between these Budget deficits and the cost of living, which is causing such suffering and unrest throughout the world, is far from being grasped. Nearly every Government is being pressed to incur fresh expenditure; largely on palliatives which aggravate the very evils against which they are directed.

The first step is to bring public opinion in every country to realize the essential facts of the situation and particularly the need for re-establishing public finances on a sound basis as a preliminary to the execution of those social reforms which the world demands.

II.

Increase of Production

Public attention should be especially drawn to the fact that the reduction of prices and the restoration of prosperity is dependent on the increase of production, and that the continual excess of Government expenditure over revenue represented by Budget deficits is one of the most serious obstacles

to such increase of production, as it must sooner or later involve the following consequences:—

(a) Further inflation of credit and currency.

(b) A further depreciation in the purchasing power of the domestic currency, and a still greater instability of the foreign exchanges.

(c) A further rise in prices and in the cost of living.

The country which accepts the policy of Budget deficits is treading the slippery path which leads to general ruin; to escape from that path no sacrifice is too great.

III.

Restriction of Expenditure

It is therefore imperative that every Government should, as the first social and financial reform, on which all others depend:—

(a) Restrict its ordinary recurrent expenditure, including the service of the debt to such an amount as can be covered by its ordinary revenue.

(b) Rigidly reduce all expenditure on armaments in so far as such reduction is compatible with the preservation of national security.

(c) Abandon all unproductive extraordinary expenditure.

(d) Restrict even productive extraordinary expenditure to the lowest possible amount.

IV. Reduction of Armaments

The Supreme Council of the Allied Powers in its pronouncement on the 8th March declared that "Armies should everywhere be reduced to a peace footing, that armaments should be limited to the lowest possible figure compatible with national security, and that the League of Nations should be invited to consider, as soon as possible, proposals to this end." The statements presented to the Conference show that, on an average, some 20 per cent. of the national expenditure is still being devoted to the maintenance of armaments and the preparations for war.

The Conference desires to affirm with the utmost emphasis that the world cannot afford this expenditure. Only by a frank policy of mutual co-operation can the Nations hope to regain their old prosperity; and in order to secure that result the whole resources of each country must be devoted to strictly productive purposes.

The Conference accordingly recommends most earnestly to the Council of the League of Nations the desirability of conferring at once with the several Governments concerned, with a view to securing a general and agreed reduction of the crushing burden which, on their existing scale, armaments still impose on the impoverished peoples of the world, sapping their resources and imperilling their recovery from the ravages of war. The Conference hopes that the Assembly of the League which is about to meet will take energetic action to this end.

V. Abandonment of Artificial Measures

While recognizing the practical difficulties in the way of immediate action in all cases, the Conference considers that every Government should abandon at the earliest practicable date all uneconomical and artificial measures which conceal from the people the true economic situation; such measures include:

(a) The artificial cheapening of bread and other foodstuffs, and of coal and other materials by selling them below cost price to the public, and the provision of unemployment doles of such a character as to demoralize instead of encouraging industry.

(b) The maintenance of railway fares, postal rates and charges for other government services on a basis which is insufficient to cover the cost of the services given, including annual charges on capital account.

VI. Further Taxation Necessary

In so far as, after every effort has been made, it is impossible to cut down expenditure within the limits of existing revenues, fresh taxation must be imposed to meet the deficit, and this process must be ruthlessly continued until the revenue is at least sufficient to meet the full amount of the recurrent ordinary expenditure. The Conference considers that the relative advantages of the various possible means of increasing the national revenue, whether by direct or indirect taxation or by a capital levy (to be devoted to the repayment of debt), depend upon the special economic conditions obtaining in each country, and that in consequence each country must decide for itself on the methods which are best suited to its own internal economy.

VII. Cessation of Borrowing

If the above principles are accepted and applied, loans will not be required for recurrent ordinary expenditure; borrowing for that purpose must cease. In a number of countries, however, although the ordinary expenditure must at the present time be undertaken on capital account. This applies more especially in the case of those countries devastated during the war, whose reconstruction charges cannot possibly be met from ordinary receipts. The restoration of the devastated areas is of capital importance for

the re-establishment of normal economic conditions; and loans for this purpose are not only unavoidable but justifiable. But in view of the shortage of capital it will be difficult to secure the sums required even for this purpose, and only the most urgent schemes should be pressed forward immediately.

VIII. Fresh Loans Met Out of Savings

The means by which loans are raised are no less important than the purposes for which they are destined. In future the loans which are required for urgent capital purposes must be met out of the real savings of the people. But those savings have, as it were, been pledged for many years ahead by the credits created during the war, and the first step to raising fresh money must be to fund the undigested floating obligations with which the markets are burdened.

These principles apply both to internal and to external borrowing, and in regard to the latter we suggest that it would be in the general interest for the creditor countries to give such facilities as may be possible to the debtor countries to fund their floating obligations at the earliest possible date.

IX. Publicity Demanded

In order to enlist public interest it is essential to give the greatest publicity possible to the situation of the public finances of each State.

The Conference is, therefore, of the opinion that the work already accomplished by the Secretariat in its comparative study of public finances should be continued, and it suggests that the Council of the League of Nations should request all its Members and all the Nations represented at this Conference to furnish it regularly not only with Budget estimates and final Budget figures,

but also with a half-yearly account of actual receipts and expenditure. At the same time, countries should be urged to supply as complete information as is possible on the existing system of taxation, and any suggestions which may appear in each State to be useful for the financial education of the public opinion of the world.

With the aid of the information thus obtained the League of Nations would be enabled to prepare pamphlets for periodical publication setting out the comparative financial position of the countries of the world, and making clear the various systems of taxation in force.

X. Strict Application Necessary

The Conference is of opinion that the strict application of the principles outlined above is the necessary condition for the re-establishment of public finances on a sound basis. A country which does not contrive as soon as possible to attain the execution of these principles is doomed beyond hope of recovery. To enable Governments, however, to give effect to these principles, all classes of the community must contribute their share.

Industry must be so organized as to encourage the maximum production on the part of capital and labor, as by such production alone will labor be able to obtain those improved conditions of life which it is the aim of every country to secure for its people.

All classes of the population, and particularly the wealthy, must be prepared willingly to accept the changes necessary to remedy the present situation.

Above all, to fill up the gap between the supply of and the demand for commodities, it is the duty of every patriotic citizen to practise the strictest possible economy and so to contribute his maximum effort to the common weal. Such private action is the indispensable basis for the fiscal measures required to restore public finances.

Currency and Exchange

The currency of a country, in the sense of the immediate purchasing power of the community, includes (a) the actual legal tender money in existence, and (b) any promises to pay legal tender, *i. e.*, as Bank balances—which are available for ordinary daily transactions.

The currencies of all belligerent, and of many other countries, though in greatly varying degrees, have since the beginning of the war been expanded artificially, regardless of the usual restraints upon such expansion (to which we refer later) and without any corresponding increase in the real wealth upon which their purchasing power was based; indeed in most cases in spite of a serious reduction in such wealth.

It should be clearly understood that this artificial and unrestrained expansion, or "inflation" as it is called, of the currency or of the titles to immediate purchasing power, does not and cannot add to the total real purchasing power in existence, so that its effect must be to reduce the purchasing power of each unit of the currency. It is, in fact, a form of debasing the currency.

The effect of it has been to intensify, in terms of the inflated currencies, the general rise in prices, so that a greater amount of such currency is needed to procure the accustomed supply of goods and services. Where this additional currency was procured by further "inflation" (*i. e.*, by printing more paper money or creating fresh credit) there arose what has been called a "vicious spiral" of constantly rising prices and wages and constantly increasing inflation, with the resulting disorganization of all business, dislocation of the exchanges, a progressive increase in the cost of living, and consequent labor unrest.

I.

Therefore:

It is of the utmost importance that the growth of inflation should be stopped, and this, although no doubt very difficult to do immediately in some countries, could quickly

be accomplished by (1) abstaining from increasing the currency (in its broadest sense as defined above), and (2) by increasing the real wealth upon which such currency is based.

The cessation of increase in the currency should not be achieved merely by restricting the issue of legal tender. Such a step, if unaccompanied by other measures, would be apt to aggravate the situation by causing a monetary crisis. It is necessary to attack the causes which lead to the necessity for the additional currency.

The chief cause in most countries is that the Governments, finding themselves unable to meet their expenditures out of revenue, have been tempted to resort to the artificial creation of fresh purchasing power, either by the direct issue of additional legal tender money, or more frequently by obtaining—especially from the Banks of Issue, which in some cases are unable and in others unwilling to refuse them—credits which must themselves be satisfied in legal tender money. We say, therefore, that—

II.

Governments must limit their expenditure to their revenue. (We are not considering here the finance of reconstructing devastated areas.)

III.

Banks, and especially Banks of Issue, should be freed from political pressure and should be conducted solely on the lines of prudent finance.

But the Governments are not the only offenders in this respect; other parties, and especially in some countries the municipalities and other local authorities, have raised excessive credits which in the same way multiply the titles to purchasing power.

Nor will it be sufficient, for the purpose of checking further inflation, that additional issues of legal tender or the granting of addi-

tional credits should cease; since the floating debts of Government and other authorities constitute in themselves a form of potential currency, in that, except in so far as they are constantly renewed, their amount will come to swell the total currency in existence; consequently—

IV.

The creation of additional credit should cease and Governments and municipalities should not only not increase their floating debts, but should begin to repay or fund them by degrees.

In normal times the natural and most effective regulator of the volume and distribution of credit is the rate of interest which the central Banks of Issue are compelled, in self-preservation and in duty to the community, to raise when credit is unduly expanding. It is true that high money rates would be expensive to Governments which have large floating debts, but we see no reason why the community in its collective capacity (*i. e.*, the Government) should be less subject to the normal measure for restricting credit than the individual members of the community. In some countries, however, the financial machinery has become so abnormal that it may be difficult for such corrective measure to be immediately applied. We recommend, therefore, that—

V.

Until credit can be controlled merely by the normal influence of the rate of interest, it should only be granted for real economic needs.

It is impossible to lay down any rule as to the "proper rates" of discount or interest for different countries. These rates will depend not only on the supply and demand at different times, but also on other factors often of a psychological nature. It may, indeed, confidently be said that when once the arbitrary increase of inflation ceases, and when the Banks of Issue are able successfully to perform their normal functions, rates will find their own proper level.

The complementary steps for arresting the

increase of inflation by increasing the wealth on which the currency is based, may be summed up in the words: increased production and decreased consumption.

The most intensive production possible is required in order to make good the waste of war and arrest inflation, and thus to reduce the cost of living; yet we are witnessing in many countries production below the normal, together with those frequent strikes which aggravate instead of help to cure the present shortage and dearth of commodities.

When diminution in the Governments' demands frees more credits for trade and for the recuperation of the world, when inflation has ceased and prices cease to rise, and when the general unsettlement caused by the war subsides, it is probable that great improvement will be seen in productive activity.

Yet, in our opinion, the production of wealth is in many countries suffering from a cause which it is more directly in the power of Governments to remove, *viz.*, the control in various forms which was often imposed by them as a war measure and has not yet been completely relaxed. In some cases, business has even been taken by Governments out of the hands of the private trader, whose enterprise and experience are a far more potent instrument for the recuperation of the country.

Another urgent need is the freest possible international exchange of commodities. With this another Commission will deal, but we feel that our recommendations here on inflation would not be complete without adding that—

VI.

Commerce should as soon as possible be freed from control, and impediments to international trade removed.

Equally urgent is the necessity for decreased consumption in an impoverished world where so much has been destroyed and where productive power has been impaired. It is, therefore, specially important at present that, both on public and private account, and not only in impoverished countries, but in every part of the world—

VII.

All superfluous expenditure should be avoided.

To attain this end, the enlightenment of public opinion is the most powerful lever. If the wise control of credit brings dear money, this result will in itself help to promote economy.

We pass now from inflation and its remedies to the other points submitted to us.

Without entering into the question whether gold is or is not the ideal common standard of value, we consider it most important that the world should have common standard, and that, as gold is to-day the nominal standard of the civilized world—

VIII.

It is highly desirable that the countries which have lapsed from an effective gold standard should return thereto.

It is impossible to say how or when all the older countries would be able to return to their former measure of effective gold standard, or how long it would take the newly formed countries to establish such a standard. But in our opinion—

IX.

It is useless to attempt to fix the ratio of existing fiduciary currencies to their nominal gold value; as, unless the condition of the country concerned were sufficiently favorable to make the fixing of such ratio necessary, it could not be maintained.

The reversion to, or establishment of, an effective gold standard would in many cases demand enormous deflation and it is certain that such—

X.

Deflation, if and when undertaken, must be carried out gradually and with great caution; otherwise the disturbance to trade and credit might prove disastrous.

XI.

We cannot recommend any attempt to stabilize the value of gold and we gravely doubt

whether such attempt could succeed; but this question might well be submitted to the Committee to which we refer later, if it should be appointed.

XII.

We believe that neither an International Currency nor an International Unit of Account would serve any useful purpose or remove any of the difficulties from which International Exchange suffers to-day.

XIII.

We can find no justification for supporting the idea that foreign holders of Bank notes or Bank balances should be treated differently from native holders.

XIV.

In countries where there is no central Bank of Issue, one should be established, and if the assistance of foreign capital were required for the promotion of such a Bank, some form of international control might be required.

XV.

Attempts to limit fluctuations in Exchange by imposing artificial control on Exchange operations are futile and mischievous. In so far as they are effective they falsify the market, tend to remove natural correctives to such fluctuations and interfere with free dealings in forward Exchange which are so necessary to enable traders to eliminate from their calculations a margin to cover risk of exchange, which would otherwise contribute to the rise in prices. Moreover, all Government interference with trade, including Exchange, tends to impede that improvement of the economic conditions of a country by which alone a healthy and stable exchange can be secured.

We support the suggestion that—

XVI.

A Committee should be set up both for continuing the collection of the valuable financial statistics that have been furnished for this Conference and also the further investigation of currency policy.

International Trade

I.

The International Financial Conference affirms that the first condition for the resumption of international trade is the restoration of real peace, the conclusion of the wars are still being waged, and the assured maintenance of peace for the future. The continuance of the atmosphere of war and of preparations for war is fatal to the development of that mutual trust which is essential to the resumption of normal trading relations. The security of internal conditions is scarcely less important, as foreign trade cannot prosper in a country whose internal conditions do not inspire confidence. The Conference trusts that the League of Nations will lose no opportunity to secure the full restoration and continued maintenance of peace.

II.

The International Financial Conference affirms that the improvement of the financial position largely depends on the general restoration as soon as possible of good-will between the various nations; and in particular it endorses the declaration of the Supreme Council of the 8th March last "that the 'States which have been created or enlarged 'as a result of the war should at once re-establish full and friendly co-operation, and 'arrange for the unrestricted interchange of 'commodities in order that the essential unity 'of European economic life may not be impaired by the erection of artificial economic 'barriers.'"

I.

The Conference recognizes in the first place that the difficulties which at present lie in the way of international credit operations arise almost exclusively out of the disturbance caused by the war, and that the normal working of financial markets cannot be completely re-established unless peaceful

III.

The Conference recommends that, within such limits and at such time as may appear possible, each country should aim at the progressive restoration of that freedom of commerce which prevailed before the war, including the withdrawal of artificial restrictions on, and discriminations of price against, external trade.

IV.

The International Financial Conference expresses its conviction that the instability of the exchanges constitutes a great hindrance to the resumption of normal international trade.

V.

The International Financial Conference would welcome any action which can be taken by the League of Nations to enable the countries, which under present conditions cannot purchase the necessary supplies for their reconstruction, temporarily to obtain commercial credits on an approved basis for this purpose.

VI.

The International Financial Conference expresses the conviction that the repair, improvement and economical use of the transport systems of the world, and particularly of countries affected by the war, are of vital importance to the restoration of international trade.

International Credits

relations are restored between all peoples and the outstanding financial questions resulting from the war are made the subject of a definite settlement which is put into execution.

II.

The Conference is, moreover, of opinion that the revival of credit requires as pri-

mary conditions the restoration of order in public finance, the cessation of inflation, the purging of currencies, and the freedom of commercial transactions. The resolutions of the Commission on International Credits are therefore based on the resolutions of the other Commissions.

III.

The Conference recognizes, however, that this general improvement in the situation requires a considerable period of time, and that in present circumstances it is not possible for certain countries to restore their economic activity without assistance from abroad. This assistance is required for periods which exceed the normal term of commercial operations.

IV.

The Conference is of opinion that in principle the resources out of which this assistance is to be provided should be found from the savings of the lending countries and must not result in undue increase of the fiduciary circulation—that is to say, in the creation or extension of a disproportion between means of payment and the genuine requirements of business.

V.

The Conference believes, on the other hand, that this assistance can only be effectively accorded to countries which are prepared to assist one another in the restoration of economic life, and to make every effort to bring about within their own frontiers the sincere collaboration of all groups of citizens and to secure conditions which give to work and thrift liberty to produce their full results.

VI.

The Conference does not believe that, apart from particular decisions dictated by national interests or by considerations of humanity, credits should be accorded directly by Governments.

VII.

It appears to the Conference that one of the chief obstacles to the granting of credits is the absence in borrowing countries of sufficient security for ultimate repayment. The Conference therefore studied with attention in the light of the general considerations enumerated above, all the proposals presented with a view to creating guarantees which would provide satisfactory security for exporters.

The Conference has been forced to recognize that no single system could by itself suffice to provide for the many different needs of the various countries, and that it is necessary to indicate a series of measures sufficiently elastic to be adapted afterwards to every variety of circumstances.

For these reasons the Conference decided to make the following recommendations:

VIII.

An international organization should be formed and placed at the disposal of States desiring to have resort to credit for the purpose of paying for their essential imports. These States would then notify the assets which they are prepared to pledge as security for the sake of obtaining credit, and would come to an understanding with the international organization as to the conditions under which these assets would be administered.

The bonds issued against this guarantee would be used as collateral for credits intended to cover the cost of commodities.

A plan based upon these principles is developed in the Annex. It has been devised to enable States to facilitate the obtaining of commercial credits by their nationals. It is easy to see that the scheme is susceptible of development in various directions, and that some of its provisions might be adapted so as to facilitate the extension of credit direct to public corporations.

A Committee of financiers and business men should be nominated forthwith by the Council of the League of Nations for the purpose of defining the measures necessary to give practical effect to this proposal.

IX.

It has been represented to the Conference that more complete results might be achieved if the bonds used as collateral were to carry some international guarantee.

The Conference sees no objection to the further consideration of this proposal. The Committee referred to in paragraph VIII above might usefully consider the conditions under which it could be applied.

X.

It has also been represented to the Conference that an extension on international lines of the existing system of export credit insurance would in many instances be of great value in developing trade with countries where political and social conditions give rise to an anxiety which is often exaggerated by exporters. The Conference believes that an extension of this kind is worthy of consideration, and that it should be examined in detail by experts.

XI.

The attention of the Conference has been called to the present system of "finishing credits," that is to say, of credits under which a lien in favor of the exporter or a banker is maintained on the raw material in all its different stages and upon the proceeds of the manufactured article. This system has suffered greatly owing to the lack, in many countries, of sufficient legal protection for the exporter throughout the various stages of importation, manufacture, re-exportation and sale. The Conference would suggest that the Council be recommended to draw the attention of the different Governments to this question, and to summon an advisory body of legal experts and businessmen to specify the legislative action which it would be desirable to take in order to attain the desired object in each of the countries concerned.

XII.

Apart from the above-mentioned proposals which the Conference recommends the League of Nations to adopt, and if possible to apply in practice, the Conference believes that the

activities of the League might usefully be directed towards promoting certain reforms, and collecting the relevant information required to facilitate credit operations. In this connection the Conference considers it well to draw attention to the advantages of making progress under each of the following heads:

(1) Unification of the laws relating to bills of exchange and bills of lading;

(2) The reciprocal treatment of the branches of foreign banks in different countries;

(3) The publication of financial information in a clear, comparative form;

(4) The examination of claims by the holders of bonds the interest on which is in arrear;

(5) An international understanding on the subject of lost, stolen or destroyed securities;

(6) The establishment of an international clearing house;

(7) An international understanding which, while ensuring the due payment by everyone of his full share of taxation, would avoid the imposition of double taxation which is at present an obstacle to the placing of investments abroad.

XIII.

During the course of its deliberations the Conference could not fail to be impressed by the fact that all, or almost all, of the many proposals submitted for its consideration require at some stage the active intervention of the League of Nations. The Conference is unanimously in sympathy with this tendency, and believes that it is desirable to extend to the problems of finance that international co-operation which the League of Nations has inaugurated, and which it is attempting to promote in order to improve the general situation and maintain the peace of the world.

Annex

Commercial Credits

1. In order that impoverished nations, which under present circumstances are unable to obtain accommodation on reasonable terms in the open market, may be able to command the confidence necessary to attract funds for the financing of their essential imports, an international commission shall be constituted under the auspices of the League of Nations.

2. The commission shall consist of bankers and business men of international repute, appointed by the Council of the League of Nations.

3. The commission shall have the power to appoint sub-commissions and to devolve upon them the exercise of its authority in participating countries or in groups of participating countries.

4. The Governments of countries desiring to participate shall notify to the commission what specific assets they are prepared to assign as security for commercial credits to be granted by the nationals of exporting countries.

5. The commission, after examination of these assets, shall of its own authority determine the gold value of the credits which it would approve against the security of these assets.

6. The participating Government shall then be authorized to prepare bonds to the gold value approved by the commission, each in one specific currency to be determined on the issue of the bond.

7. The date of maturity and the rate of interest to be borne by these bonds shall be determined by the participating Government in agreement with the commission.

8. The service of these bonds shall be secured out of the revenue of the assigned assets.

9. The assigned assets shall in the first instance be administered by the participating Government or by the international commission as that commission may in each case determine.

10. The commission shall at any time have the right of making direct representations to the Council of the League of Nations as to the desirability of transferring the administration of the assigned assets either from the commission to the participating Government or from the participating Government to the commission.

11. The decision of the Council of the League of Nations on this question shall be binding.

12. After the preparation of these bonds the participating Government shall have the right to loan the bonds to its own nationals, for use by them as collateral security for imports.

13. The bonds shall be made out in such currencies and in such denominations as are applicable to the particular transaction in respect of which they are issued.

14. The participating Government shall be free to take or not to take security for the loan of these bonds from the nationals to whom they are lent.

15. The maturity and the rate of interest of the loan of the bonds shall be fixed by agreement between the participating Government and the borrower of the bonds; they need not be the same as the maturity and the rate of interest of the bonds themselves.

16. When making application to his Government for a loan of these bonds, the importer must furnish proof that he has previously obtained from the international commission express permission to enter into the transaction for which the bonds are to be given as collateral.

17. Each bond, before it is handed over by the participating Government to the importer, shall be countersigned by the commission in proof of registration.

18. Having obtained the consent of the commission and received from them the countersigned bonds, the importer will pledge these bonds to the exporter in a foreign country for the period of the transaction.

19. The exporter will return to him on their due dates the coupons of the pledged bonds, and the bonds themselves on the completion of the transaction.

20. On receipt of the coupons and the bonds respectively, the importer will return them to his Government.

21. Bonds returned to the participating Government shall be cancelled and may subsequently be replaced by other bonds, either in the same or in a different currency, up to an equivalent amount.

22. The exporter, or if he has pledged the bonds the institution with which he has pledged them acting on his behalf, would be free, in the event of the importer not fulfilling the terms of his contract, to hold until maturity the bonds given as collateral by the importer, or to sell them in accordance with the custom in his country in case of default.

23. In the second alternative an option of repurchasing the bonds direct must first be given for a short period to the Government which issued them.

24. If a sale is resorted to and results in a surplus beyond what is necessary to cover the claims of the exporter upon the importer, the exporter shall be held accountable for that surplus to the Government which issues the bonds.

25. The revenues from the assigned assets shall be applied as follows to the service of the bonds.

26. Out of these revenues, the commission or the participating Government, as the case may be, shall purchase foreign currencies sufficient to meet at their due date the coupons on all bonds any time outstanding in the different foreign currencies.

27. In addition they shall establish abroad in the appropriate currencies a sinking fund

calculated to redeem at maturity 10 per cent. of the bonds outstanding in each of the different countries.

28. Further, in addition to the amounts provided for payment of coupons and for the endowment of the sinking fund, they shall establish out of the assigned revenues a special reserve in one or more foreign currencies for the redemption of bonds sold in accordance with par. 22.

29. The amount to be set aside for the special reserve shall in each case be determined by the commission.

30. Any surplus remaining at the end of each year after the provision of these services shall be at the free disposal of the participating Government.

31. A participating Government shall have the right to offer its own bonds as collateral for credits obtained for the purpose of importations on Government account. The previous assent of the commission will in these cases also be required for the particular importations desired by the participating Government.

32. If a participating Government which has been in control of its assigned revenues should fail to fulfill its obligations, the exporter concerned will notify the commission and the commission will apply to the Council of the League of Nations for the transfer of the management of the assigned revenues to the commission.

33. The consent of the commission is necessary whenever bonds secured on the assigned assets are given as collateral and shall as a rule be accorded only for the import of raw materials and primary necessities.

34. The commission may, however, at its discretion, sanction in advance the importation of specified quantities of such goods.

35. Even in the case of imports under such a general sanction a notification of the particular transaction must be registered with the commission.

36. The assent of the commission must also be obtained in every case to the term of the credit which it is proposed to open.

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